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REPORT TO THE LEGISLATURE

Performance Audit of Selected Energy Grant Programs

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This report contains recommendations for improvements in the management and operation of seven energy grant programs.

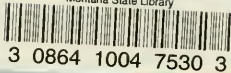
The programs are:

- ▶ Weatherization Grant Program (pages 5-18).
- ▶ Fuel Assistant Grant Program (pages 19-22).
- ▶ Renewable Alternative Energy Grant Program (pages 23-40).
- ▶ Institutional Building Grant Program (pages 41-47).
- ▶ Renewable Resources Development Grant Program (pages 48-54).
- ▶ Solid Waste Management Planning Grant Program (pages 55-59).
- ▶ Food and Fuels Grant Program (pages 60-66).



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JAMES H. GILLETT, C.P.A.
ACTING LEGISLATIVE AUDITOR

March 1981

JOHN W. NORTHEY
STAFF LEGAL COUNSEL

The Legislative Audit Committee
of the Montana State Legislature:

Herein transmitted is our performance audit of selected energy grant programs. The purpose and scope of the audit are explained in Chapter I of the report.

This report contains recommendations to the various administrative agencies to improve the administration and operation of the programs. The administering departments have generally concurred with all recommendations made in this report. Their responses are contained beginning on page 67.

We wish to express our appreciation to the directors of the Departments of Community Affairs, Natural Resources and Conservation, Health and Environmental Science, and Agriculture, and the staff of the agencies for their cooperation and assistance.

Respectfully submitted,

A handwritten signature in black ink that reads "James H. Gillett".

James H. Gillett, CPA
Acting Legislative Auditor

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ADMINISTRATIVE OFFICIALS

DEPARTMENT OF COMMUNITY AFFAIRS

David Wanzenried	Director
John Allen	Administrator Community Services Division

DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION

Leo Berry	Director
William Gosnell	Administrator Energy Division
Gary Fritz	Administrator Water Resources Division

DEPARTMENT OF AGRICULTURE

Gordon McOmber	Director
Jack Gunderson	Program Coordinator

DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

Dr. John Drynan	Director
Donald Willems	Administrator Environmental Sciences Division

CHAPTER I

INTRODUCTION

At the request of the 1979-81 Interim Energy Forecasting Committee, the Legislative Audit Committee instructed the Legislative Auditor to conduct a preliminary survey of Montana's energy programs and related activities. This survey was released in March of 1980 and contained a description of energy-related programs administered by eleven departments of state government. From this initial survey, eight energy grant programs were selected for audit.

This report is the result of our performance audit of selected energy-related grant programs. Seven grant programs are examined in this report. The eighth program relates to coal impact grants administered by the Coal Board and will be presented in a separate audit report.

Four departments administer the seven grant programs reviewed. Illustration 1 details the administering departments, agencies directly responsible for program operations, program titles, and funding sources.

ENERGY GRANT PROGRAMS
REVIEWED
 FY 1979-80

<u>Department</u>	<u>Administrative Agency</u>	<u>Program Title</u>	<u>Funding Source</u>
Community Affairs	Community Services Division	Home Weatherization Grants	Federal
	Community Services Division	Fuel Assistance Grants	Federal
Natural Resources & Conservation	Energy Division	Renewable Alternative Energy Grants	Coal Severance Tax
	Energy Division	Institutional Building Grants	Federal/Resource Indemnity Trust Fund
	Water Resources Division	Renewable Resource Grants	Coal Severance Tax
Health and Environmental Sciences	Solid Waste Management Bureau	Solid Waste Management Planning Grants	*Coal Severance Tax
Agriculture	Hail Insurance Unit Manager	Food and Fuels Grants	State Grain Tax

*Note: Funding is through a grant from the Renewable Resource Development Program of the Water Resources Division, Department of Natural Resources and Conservation.

Source: Compiled by the Office of the Legislative Auditor.

Illustration 1

ORGANIZATION OF REPORT

The report is presented in seven chapters. Chapter I presents an introduction to the report and summarizes the objectives and scope of our performance audit.

Chapter II examines the Fuel Assistance and Weatherization Grant Programs administered by the Community Services Division

of the Department of Community Affairs (DCA). Fuel assistance funds are provided by the federal government to low income persons to help pay fuel bills. Federal grant funds are also distributed by DCA for the weatherization program. These grants are for conservation of energy and are implemented by providing money to individuals for home repairs which reduce energy use. Recommendations are made to improve program monitoring and state administration of funds.

Chapters III, IV, and V deal with three energy grant programs administered by two divisions within the Department of Natural Resources and Conservation. The Energy Division is responsible for the Renewable Alternative Energy Grant Program, which provides grants for projects dealing with non-fossil fuel energy production. This program is covered in Chapter III. This same division administers the Institutional Building Grant Program, which supplies funds for energy conservation measures for state and local institutions. Chapter IV reviews the Institutional Building Grant Program. A third program, examined in Chapter V, is administered by the Department's Water Resources Division and is called the Renewable Resource Development Grant Program. This program funds projects to enhance the use of renewable resources, such as land, water, recreation facilities, etc. It is peripherally related to energy in that some grant projects promote energy conservation or production. Recommendations are made to improve the monitoring, administration, and accountability of these programs.

Chapter VI presents information on the Solid Waste Management Grant Program administered by the Solid Waste Management Bureau of the Department of Health and Environmental Sciences. Grants from this program fund studies by localities for the disposal of solid waste. Recommendations for changes in administrative procedures are made.

Chapter VII discusses the Food and Fuels Program, formerly administered by the manager of the Hail Insurance Unit of the Department of Agriculture. This program is now the responsibility of the Department of Natural Resources and Conservation; however, the director of the Department of Agriculture maintains the authority to approve all project grants. Recommendations have been made to improve grant monitoring, administration, and fund distribution.

SCOPE OF THE AUDIT

The audit focused on the efficiency and effectiveness of each program's grant administration. Programs reviewed were selected because each distributes grant funds for energy related projects. Grant file documentation, including contracts, project reports, monitoring efforts, and other available data was reviewed. Interviews were conducted with program staff, grant recipients, and other interested parties. Criteria established to award grants was examined, along with program efforts to monitor grant success. Samples of grant applications, as well as awarded grants, were selected to determine the consistency of grant evaluations.

CHAPTER II

WEATHERIZATION AND FUEL ASSISTANCE GRANT PROGRAMS

The Montana weatherization and fuel assistance programs are administered by the Community Services Division of the Department of Community Affairs (DCA). Both programs are now totally funded by the federal government and are intended to assist low income individuals. Weatherization grants provide funds to improve the heating efficiency of homes and reduce energy consumption. Fuel assistance grants are intended to reduce grantee fuel expenditures by paying a portion of energy bills.

The Montana Advisory Council on Poverty helps review both programs. This Council acts as the State Policy Advisory Committee by providing comments on the program and reviewing all proposed state programs which affect the poor. The Council works closely with DCA in identifying those areas where energy relief programs are not meeting the needs of the poor.

DCA has ten subgrantees, all of which are Community Action Agencies. These subgrantees are local organizations which are an outgrowth of the national system of Community Action Agencies created by the Federal Economic Opportunity Act of 1964. In Montana, the subgrantees are known as Human Resources Development Councils (HRDCs). The ten councils cover specific areas designated as substate planning districts by the Governor (see Illustration 2). These HRDCs serve as the anti-poverty network in Montana. In addition to the weatherization and fuel assistance programs, the HRDCs administer a number of federal anti-poverty programs, i.e., Headstart, Youth Corps, and WIN.

The HRDCs' role in the weatherization and fuel assistance programs is twofold: to provide assistance to low-income persons who cannot pay escalating fuel bills, and to create a means for permanent reduction in state energy demands through weatherization.

MONTANA'S

Human Resource Development Councils

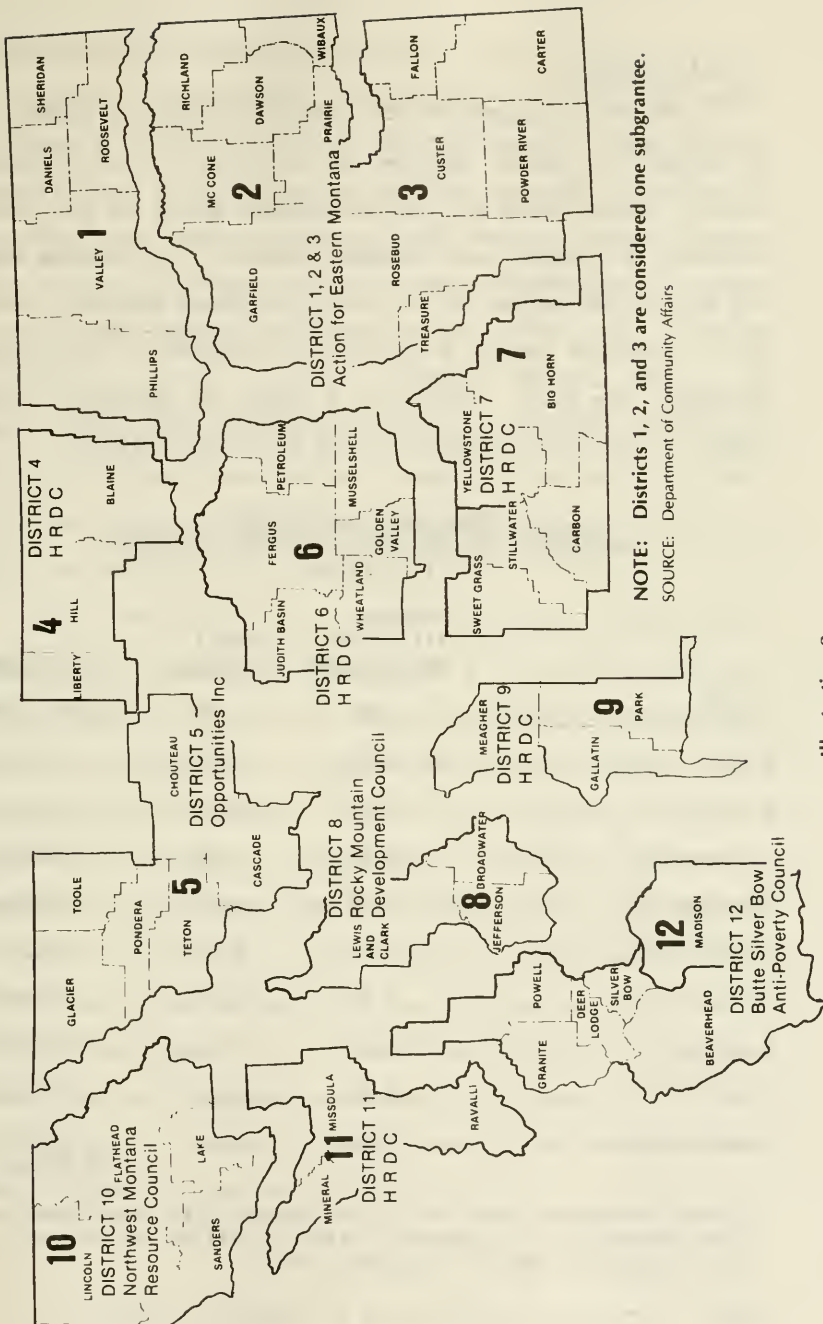


Illustration 2.

Fund Allocation

Funds for the weatherization and fuel assistance programs are distributed by federal agencies to the states on an allocation formula. These funds are then apportioned among the ten HRDCs according to a similar state allocation formula. The formula takes into account the percent of the state's low-income population residing in particular service areas and the variations in temperature throughout the state. Illustration 3 details the allocation to each HRDC for both grant programs during fiscal year 1979-80.

HRDC FUND ALLOCATIONS
WEATHERIZATION AND FUEL ASSISTANCE PROGRAMS
FY 1979-80

	<u>Formula Allocation Percentage*</u>	<u>Actual Funding</u>	<u>Total Funds</u>
Action (Districts I, II & III)	13.3%	12.1%	\$1,047,746
District IV	6.8%	3.5%	303,375
District V	13.9%	22.5%	1,943,248
District VI	5.9%	4.5%	390,128
District VII	13.5%	9.5%	823,646
District VIII	6.4%	6.1%	528,527
District IX	7.6%	6.8%	590,940
District X	11.2%	12.5%	1,077,197
District XI	10.2%	10.9%	946,518
District XII	11.2%	11.6%	999,137
			<u>\$8,650,462</u>

* Formula allocated funds can be reallocated by the Department to other districts if it appears a district will not be able to fully expend its share of granted funds.

Source: Compiled by the Office of the Legislative Auditor

Illustration 3

WEATHERIZATION GRANTS

Montana's weatherization program began in 1974 when Action for Eastern Montana (a Community Action Agency based in Glendive) received a grant from the Old West Regional Commission. A year later, the Department of Community Affairs received a federal grant from the Community Services Administration (CSA) to develop a statewide weatherization program. Five years later, a total of \$7.8 million had been used to weatherize Montana homes. The weatherization program provides funds for improving the heating efficiency of low income Montana homes by insulating walls, ceilings, and attics, adding storm doors and windows, caulking air leaks, and maintaining furnaces.

During the first three years of the program, federal money from CSA was available to the state on a 3-1 matching grant program. For the first year of the matching grant program, state funds were provided by local government appropriations. During the 1977 legislative session, in an effort to expand the existing weatherization program, the Montana Legislature appropriated \$300,000 for the program from the interest earnings generated by the coal tax trust fund. In 1978, the U.S. Department of Energy began funding the weatherization program and eliminated the 3-1 matching requirement. Since fiscal year 1977-78, no additional state funds have been appropriated for the program.

Illustration 4 shows the funds granted to the Montana Weatherization program for the last five fiscal years.

WEATHERIZATION FUNDS

<u>State Fiscal Year</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
1975-76	\$ 472,963	-0-	\$ 472,963
1976-77	192,116	\$150,000	342,116
1977-78	1,845,301	150,000	1,995,301
1978-79	1,410,691	-0-	1,410,691
1979-80	2,129,896	-0-	2,129,896

Source: Compiled by the Office of the Legislative Auditor

Illustration 4

As stipulated by federal regulation, the state is allocated 5 percent of the total grant for administration, with the remainder of the money allocated to the HRDCs.

MONITORING AND EVALUATION

State Level

The Community Services Division is responsible for monitoring both the weatherization and fuel assistance programs. The current monitoring effort consists of the following staff positions:

- 1 Program Manager for Weatherization
- 1 Program Manager for Fuel Bill Assistance
- 2 Contract Monitors ($\frac{1}{2}$ time on each program)
- 3 Field Monitors ($\frac{1}{2}$ time on each program)

Division personnel make quarterly on-site evaluations of each HRDC to see that each agency is meeting its goals and is providing the region with an effective energy program. DCA delegates the authority to the HRDC's to implement the program at the local level.

Verification and adequacy of client files, quality of weatherization workmanship, beneficiary interviews, and spot checks of weatherized homes are typical of the HRDC monitoring activities. Each HRDC must submit monthly program status reports. Division administrators use these reports to ensure contractual compliance.

Federal Level

Evaluation of the weatherization program at the federal level has been extensive. The General Accounting Office (GAO), the Regional and National Offices of the Department of Energy (DOE), and independent accounting firms have conducted program reviews. Audits by the GAO have detailed several serious problems nationally with administration of the weatherization program. Our review indicated that these problems did not exist or were less significant in Montana.

DELIVERY OF SERVICES

The Community Services Division contracts with the local HRDCs to weatherize homes in their service area. According to federal criteria, family units with income at or below 125 percent of the Office of Management and Budget (OMB) poverty level or which have received Social Security Income (SSI) payments during the 12-month period preceding determination of eligibility for weatherization assistance are eligible for this program. State developed weatherization measures or federal rules determine the type and amount of weatherization to be performed. Presently, up to \$1,200 may be spent on each home, for materials and labor costs.

Through the weatherization of homes, the division hopes to achieve a 20 percent statewide energy savings. To date, 9,000 of an estimated 43,000 eligible homes in Montana have been weatherized.

The current weatherization program is delivered in the following manner. Potential recipients of weatherization complete an application from which the HRDC determines eligibility. The HRDC program coordinators review the application and verify the applicant's eligibility by using appropriate means, such as examining tax forms or by telephoning employers. To determine the priority for receiving weatherization, some HRDCs employ a system which assigns points for each response on the application.

After an applicant has been approved, a work crew supervisor or other appropriate staff member is sent to the applicant's house to assess the home's requirements for weatherization materials. After the evaluation is made, the HRDC assembles the required materials using CETA labor or locally obtained labor from subcontractors.

To meet required procedures and to maintain quality control, a supervisor reviews the finished weatherization and evaluates the completed work. Work crew supervisors sign off on the application to ensure the needed materials have been properly installed. Lastly, recipients sign off indicating that the work has been done and is satisfactory.

ON-SITE HRDC REVIEW

In our review of the HRDC delivery of weatherization and fuel assistance programs, we visited two HRDCs. During our visits we

interviewed program coordinators, visited weatherized homes, and examined files from the weatherization and fuel assistance programs.

The two HRDCs visited were very dissimilar and possessed the following characteristics. The first was a large agency, located in an urban area, whose weatherization program was but one of its many programs. The second was an HRDC in a small, rural town. The weatherization program comprised a major part of the agency's operation.

WEATHERIZATION CONCERNS

The intent of the following sections is to briefly discuss certain operational aspects of the HRDC weatherization programs and the concerns generated during our review. These concerns include:

1. Incomplete Documentation.
2. Quality Control.
3. Fund Allocation.
4. Care of Weatherization Materials.
5. Measurability of Energy Savings.

Incomplete Documentation

During our reviews of HRDC weatherization files, we noted certain areas of agency operation lacking clear documentation. According to state criteria for proper file documentation, HRDC weatherization files are required to include specific documents tracing the weatherization process from material acquisition to post-installation inspection of weatherization equipment. Certain deficiencies were noted in the urban HRDC's files which made it

difficult to trace the weatherization process for some homes. First, there was no evidence of Job Order forms or the Priority Ranking System determining what weatherization materials were being put into specific homes in what order. Second, it was difficult to correlate the purchase orders with the work done on the home. Third, the rural HRDC used Department of Energy work order forms while the urban HRDC used its own work order forms. This lack of a consistent, standardized documentation system created difficulties in reviewing the urban HRDC's files. In several cases, it was difficult to determine the amount of money spent on individual homes.

Further, signed completion forms were not in some files at the urban HRDC. Neither work crew supervisors nor clients signed or dated completion forms. Without these signatures it is difficult to determine if the required weatherization has been completed and meets the client's satisfaction.

We discussed these concerns with DCA officials. We were informed that DCA is currently attempting to clarify needed documents and is also trying to standardize the manner in which the required documents are completed and used.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT OF COMMUNITY AFFAIRS:

- A. REQUIRE THE HRDCS TO MAINTAIN A CONSISTENT, STANDARDIZED WEATHERIZATION DOCUMENTATION SYSTEM.
- B. ENFORCE REQUIREMENT FOR REVIEW OF COMPLETED WORK.

Quality Control

As noted previously, sign-off requirements by work crew supervisors, which are designed to assure work quality, have not been fulfilled on all jobs. It was apparent during our on-site visits of weatherized homes in the urban HRDC that there were problems with quality control. Observed homes appeared to have been weatherized using appropriate materials such as storm doors, windows, etc., but there was no evidence of smaller repairs, such as caulking, to make the houses fully thermally efficient. Wood storm doors and windows were left unfinished or unpainted on the houses we visited. We spoke with work crew supervisors at both HRDCs and they agreed that wood will quickly deteriorate in Montana's climate if not properly finished and could result in future energy loss. Without requiring HRDCs to finish the wood on storm doors and windows, a permanent reduction in energy use will not be realized.

Department officials stated the concerns noted above were due to a dispute between the urban HRDC and a local union. The problem is now resolved and DCA will continue to enforce quality control requirements.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT OF COMMUNITY AFFAIRS CONTINUE EFFORTS IN ENFORCING QUALITY CONTROL REQUIREMENTS.

Fund Reallocation

Interviews with program coordinators revealed that there is potential for a more equitable reallocation of funds to the HRDCs. Division staff evaluate each HRDC's expenditure of grant funds on a quarterly basis. If an HRDC expends all funds granted to it through the allocation formula, additional moneys may be reallocated from HRDCs that have not yet expended all funds.

Re-awarding grant funds is primarily dependent on the number of homes completed. Quality of work accomplished, although considered, is a secondary factor. Rating one program superior to another because of the volume of homes weatherized does not necessarily ensure better service to the client nor greater energy conservation. Contract agreements between the HRDCs and the department should detail minimum levels of work quality before additional funding will be allocated to any district. A greater emphasis should be placed on the quality of HRDC weatherization operations for reallocation of weatherization grant funds.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT OF COMMUNITY AFFAIRS REALLOCATE FUNDS BASED ON BOTH QUALITY OF WEATHERIZATION EFFORTS AND THE NUMBER OF GRANTEEES SERVED.

Care Of Weatherization Materials

Our visits to weatherized homes revealed a problem pointed out in a national audit by the U.S. General Accounting Office - the continual care of weatherization materials after installation. We

noted that many of the houses' new storm doors and windows had been broken and were no longer thermally efficient. We found several broken storm windows and two instances where storm doors were cracked or splintered. The supervisors of both HRDCs were aware of this problem but stated that responsibility for care of installed weatherization materials is outside of their jurisdiction and is left to the individual grantee.

We also noted that there were significant differences between the care of homes in the rural town and care of homes in the urban area. Much of this is attributable to the personalized attention given to the grantees in the small town. Staff supervisors at the rural HRDC knew virtually all of the clients we visited and were able to communicate a sense of responsibility to their clients concerning care of weatherization materials. The larger volume handled by the urban HRDC did not permit this type of personalized approach and, therefore, the same sense of responsibility to their weatherization materials could not be communicated to the clients.

Although this problem cannot be solved by a change in HRDC or DCA administration, it does bring into question how well weatherization funds are spent when the long-term effect of energy conservation is being reduced by grantee neglect. The importance of educating recipients to the continuing benefits to themselves and to the state with regard to proper care of weatherization materials cannot be overstated. A permanent energy reduction is possible only if there is proper care of weatherization equipment.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT OF COMMUNITY AFFAIRS REQUIRE HRDC WORK CREWS TO MAKE A CONCERTED EFFORT TO INFORM GRANTEEES OF THE VALUE OF CONTINUED CARE OF WEATHERIZATION MATERIALS.

Measurability of Energy Savings

An overall concern developed during the review of the weatherization program deals with the lack of data on energy conservation. Nationally, a goal of the weatherization program is to achieve an energy savings of 20 percent of home heating costs. However, the program currently maintains no mechanism for determining whether or not the goal is being attained. To estimate energy savings, data on energy use would have to be collected before and after homes are weatherized. This data is not collected.

DCA officials indicated that the U.S. Department of Energy is now planning a system to collect data on energy use in weatherized homes. Until this system is operational it will be impossible to evaluate the impact, either in Montana or nationally, of the weatherization program on energy conservation.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT OF COMMUNITY AFFAIRS IMPLEMENT PROCEDURES FOR MEASURING ENERGY CONSERVATION.

FUEL ASSISTANCE

The Fuel Assistance Program began on a national basis in 1977 to provide assistance to eligible households to offset the rising costs of home energy in relation to household income. In Montana, fuel assistance funds are used to pay fuel bills by establishing a line of credit with the energy vendors. Funds can also be used to purchase certain items of necessity, such as food, medicine, and warm clothing.

The Fuel Assistance Program was created in Montana in 1977 with a federal grant of \$1.4 million from Community Services Administration and the U.S. Department of Health and Human Services. No state funds have ever been used in the Fuel Assistance Program. No state laws are directed at the program.

The federal goal of the Fuel Assistance Program is to reduce fuel costs for low income people to 10 percent of their income. To date, approximately \$11 million has been distributed to low income clients in Montana. In fiscal year 1980, 16,971 households received fuel bill assistance.

Illustration 5 shows the funds available for the Fuel Assistance Program from fiscal years 1977-78 to 1979-80. Program title changes are due to a shuffling of the Fuel Assistance Programs between several federal agencies.

FUEL ASSISTANCE PROGRAM

<u>Federal Fuel Assistance Program Title</u>	<u>Fiscal Year</u>	<u>Amount</u>
Special Crisis Intervention Program (SCIP)	1977-1978 (First Half)	\$1,480,000
Emergency Energy Assistance Program (EEAP)	1977-1978 (Second Half)	1,086,670
EEAP Extended	1978-1979	1,664,000
Energy Crisis Assistance Program (ECAP)	1979-1980	6,752,576

Source: Compiled by the Office of the Legislative Auditor

Illustration 5

Monitoring and Evaluation

State administration of the Fuel Assistance Program has also been assigned to the Community Services Division (CSD) of the Department of Community Affairs. Division staff monitor the program by supplying appropriate federal agencies with quarterly reports and performing at least one on-site review of HRDCs each month. These reviews allow DCA to evaluate the effectiveness of its role, assess the impact of the program on Montana, and determine areas for program improvement. CSD may also reallocate funds to the HRDCs, depending on expenditure levels and need for additional funding.

Delivery of Services

The Community Services Division utilizes Montana's ten HRDCs as local delivery agents for the Fuel Assistance Program. The HRDCs certify households as eligible for assistance. Eligibility for the 1980 Energy Crisis Assistance Program (ECAP) was based

solely on household income. All persons at or below 125 percent of the poverty level and all heads of households who received SSI payments were eligible for ECAP assistance. Prior to ECAP, eligibility was based on hardship and danger to health because of a fuel shutoff or lack of fuel.

The HRDCs use a state developed matrix to determine the assistance level available to the client. This determination is made on the basis of income, dwelling type, dwelling size, and fuel type. Assistance is granted to eligible clients by payment of fuel bills or a line of credit with the energy vendor. In Montana, fuel assistance funds are given directly to energy vendors rather than being distributed to individual clients. Examples of the amount of annual fuel assistance available to clients are as follows:

- A family of three with an income of \$4,900 living in a three-bedroom mobile home with electric heat receives \$304.85 in fuel assistance.
- A single occupant in a one-bedroom single family house with an income of \$3,900, heating with natural gas, receives \$354.61 in fuel assistance.
- A family of four with an income of \$2,460, living in a single family three-bedroom house, heated with fuel oil, receives \$1,033.79 in fuel assistance.

Fuel Assistance Expenditures

During our review, we noted substantial differences between the HRDCs with regard to the amount of assistance that clients receive to pay for necessities other than fuel bills.

The current Montana Plan allows a flexible use of the matrix to pay for household needs that clients cannot meet as the result of having expended all their resources paying utility/fuel bills.

Allowable expenses include food, medicine, warm clothing, blankets, or other such goods and services. The plan permits the HRDCs to expend an additional \$100 over and above the ECAP matrix per household when the situation constitutes a threat to client health.

Two HRDCs we visited expressed totally opposing viewpoints regarding this procedure. The urban HRDC administrator believes that their flexible use of the additional funding (up to \$150 in one case) had often prevented extreme hardship or danger to some of their clients and was a necessary component of the Fuel Assistance Program. In contrast, the rural HRDC coordinators stated that they had never used the additional funding except to pay accumulated utility/fuel bills. They believed that additional funds should only be applied to pay back bills and should not be extended to cover payment for other goods and services.

It should be noted that the HRDCs do not have the authority to deny additional funding to clients. Contract requirements and program regulations give clients the right to receive these funds either in payment of fuel bills or for allowable goods and services.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT OF COMMUNITY AFFAIRS COMMUNICATE TO ALL HRDCS THOSE EXPENDITURES ALLOWABLE UNDER THE FUEL ASSISTANCE PROGRAM.

CHAPTER III

RENEWABLE ALTERNATIVE ENERGY GRANT PROGRAM

The purpose of the Renewable Alternative Energy Grant Program, as stated in the 1975 state law which established the program, was to ". . . stimulate research, development, and demonstration . . ." of renewable energy sources. The Legislature earmarked a percentage of the coal severance tax to fund the program. This percentage was 1.88 percent until January 1, 1980, when it was raised to 2.5 percent. Through January 1981, the program has awarded grants totalling almost \$3.3 million.

The program is administered by the Energy Division of the Department of Natural Resources and Conservation (DNRC). The program is staffed by 6 FTE: a bureau chief, a program director, two engineers, a public information officer and a secretary. There is also a grant monitor (primarily an administrative assistant) under contract for the program. Various other department personnel assist in evaluating grant applications and charge that time to the program.

Department officials have established a policy of holding administrative expenses below 15 percent of total program expenditures.

DNRC's director appoints two advisory councils which assist in reviewing grant applications. The Renewable Energy Advisory Council is a seven-member group which reviews all grant applications. A second council, the Gasohol and Biofuels Advisory Council, concentrates on applications involving the production of energy using plant or animal products by means other than combustion.

Financial Information

Illustration 6 shows a financial summary of the program for the past four years. Expenditures which appear as grants for fiscal year 1979-80 are primarily obligations from previous fiscal years. Fiscal year 1979-80 grant contracts were signed between March and June of 1980; therefore, very little of the expenditures are attributable to those grants and most will appear as expenditures in fiscal year 1980-81. The total of the grants awarded during fiscal year 1979-80 is approximately \$640,000.

FINANCIAL SUMMARY FOR RENEWABLE ALTERNATIVE ENERGY GRANTS

<u>Fiscal Year</u>	<u>Revenues</u>	<u>Expenditures</u>	<u>Fund Balance</u>
1979-80	\$1,520,127	\$1,246,007*	\$1,636,486
1978-79	800,697	642,340	1,362,436
1977-78	702,598	663,413	1,204,079
1976-77	897,651	241,024	1,164,894

*Much of this amount is expenditures charged against previous appropriations.

Source: Compiled by the Office of the Legislative Auditor.

Illustration 6

Until fiscal year 1979-80, grant expenditures were charged against the appropriation of the year in which funds were expended, rather than the year the grant was obligated. This procedure made unclear the amount of funds available for grants and was discontinued at the end of fiscal year 1978-79. The fund balance as of July 1, 1980 was approximately \$1.6 million and is projected to be approximately \$2.5 million by July 1, 1981. The

fund balance is growing primarily because the appropriation level was not raised when the percentage of the coal severance tax allocated to the program was raised.

Grant Award Process

The department has established an unsolicited grant application period. During this period, anyone may submit a proposal, and the proposals are all evaluated at the same time.

Once the grant application period is closed, the applications are given to the staff and to the advisory councils for review. Each type of grant proposal (i.e., solar, wind, wood, etc.) competes only with the same type of proposal.

When all applications have been reviewed, the advisory council holds a meeting to decide which proposals to recommend for funding. Evaluations are presented by the staff and interested parties are invited to testify. After the testimony and council discussion, the council decides which proposals to recommend for funding. The recommendation may include changes in project funding or scope, from the original proposal.

Recommendations are forwarded to the department director along with the staff evaluation. The director makes the final funding decisions. In practice, the director has concurred with advisory council recommendations in almost all cases.

Some funds are reserved for special projects which do not go through the normal review process. These special projects either are solicited by the department or are unique proposals submitted outside the normal grant cycle. The solicited proposals utilize a mechanism called a request for proposal in which the department

advertises for bidders for a certain project (i.e., wind monitoring in various locations). The responses are evaluated and a recommendation is made by the program staff to the director on which respondent should receive the contract. Grants awarded through requests for proposals in fiscal 1979-80 amounted to \$96,000.

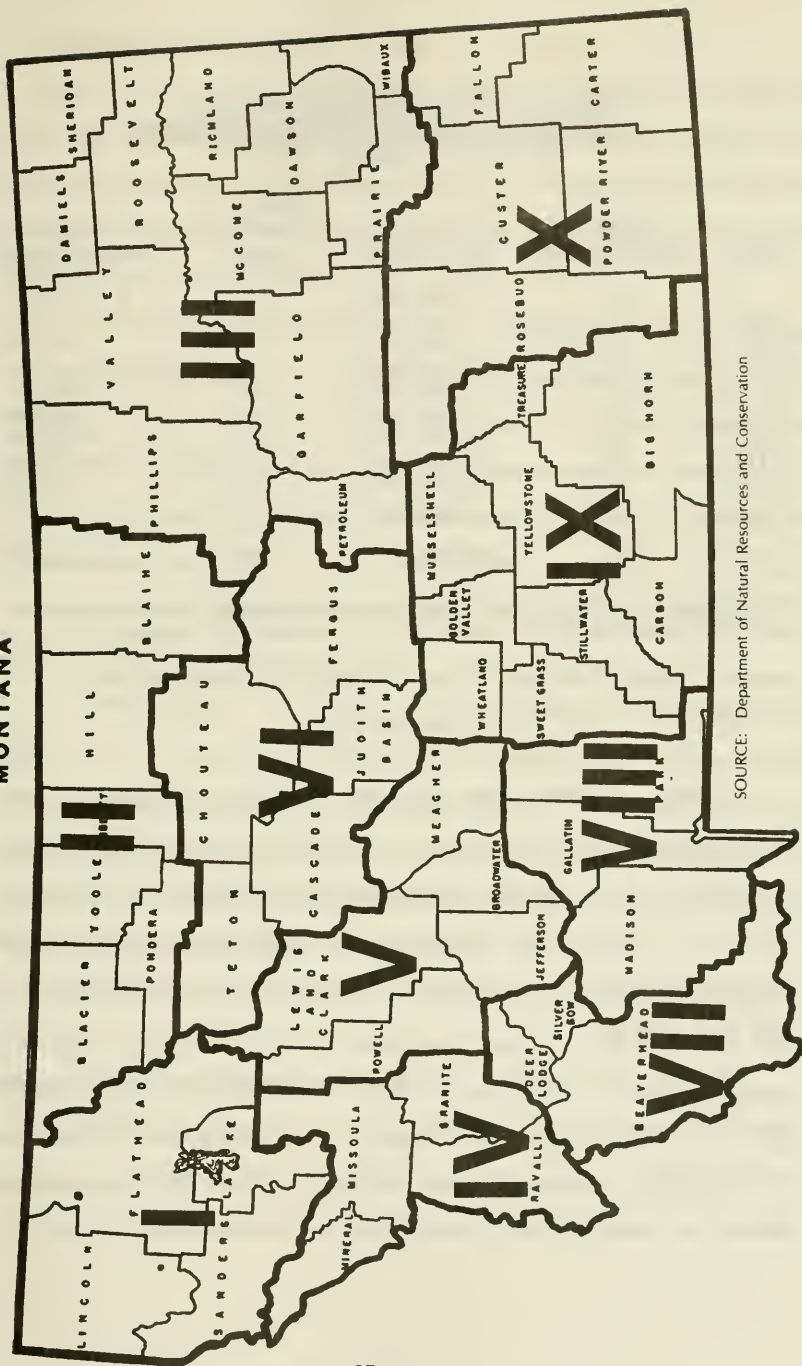
From time to time, the department receives unsolicited proposals outside the normal grant cycle. If the staff and the advisory council believe the proposal has merit, and if funds are available, a grant may be awarded on a sole source basis without competition. Sole source grants for fiscal 1979-80 amounted to \$36,000. One example of this was a proposal to monitor the City of Hamilton's solar heated swimming pool. In this case, a grant had been awarded earlier to solarize an existing city swimming pool. Later, an engineering firm submitted a grant proposal to monitor the efficiency of the system. DNRC accepted the proposal and awarded a sole source grant.

Grant Award Statistics

The department has divided the state into 10 geographic regions for grant distribution. Illustration 7 shows those regions, while Illustration 8 shows the breakdown of applications and grants for fiscal years 1978-79, 1979-80 and 1980-81.

Regions Used to Report RAE Grant Statistics

MONTANA



SOURCE: Department of Natural Resources and Conservation

Illustration 7.

GEOGRAPHIC DISTRIBUTION OF RENEWABLE
ALTERNATIVE ENERGY APPLICATIONS AND GRANTS
(FY 1978-79 through 1980-81)

<u>Region</u>	<u>Number of Applications</u>	<u>Amount of Application</u>	<u>Number of Awarded Grants</u>	<u>Amount of Awarded Grants</u>
I	34	\$ 763,105	11	\$ 69,090
II	10	250,294	4	47,753
III	19	494,445	9	61,080
IV	32	683,838	5	62,579
V	37	882,795	12	299,501
VI	32	1,419,884	4	73,668
VII	28	1,022,852	6	216,506
VIII	88	2,895,929	25	666,974
IX	35	1,210,412	8	70,304
X	<u>3</u>	<u>254,342</u>	<u>0</u>	<u>0</u>
Total	318	\$9,882,896	84*	\$1,583,455*

*One grant for \$16,000 has been set aside and will be awarded to a project based upon the results of 4 feasibility studies.

Source: Compiled by the Office of the Legislative Auditor.

Illustration 8

Energy Division staff indicated that the program has been emphasizing smaller projects up to this time. Our analysis of the applications and awards confirms this statement. Ninety-two percent of the grants, amounting to sixty-eight percent of the total dollars for fiscal years 1979 through 1981, were for grants of less than \$50,000.

During our review, we identified concerns with program direction, monitoring of grants, contract provisions, fund balance, documentation, and contracted services. The following sections discuss our concerns and suggestions for improvements.

Goals And Objectives

We examined the Renewable Alternative Energy Grant Program and found that there is not a concise set of written, measurable goals and objectives. We found two goal statements in different program documents and several statements in another document which could be objectives.

One goal of the program, outlined in Guidelines for Preparing Grant Proposals to the Alternative Renewable Energy Sources Program, is ". . . to assist the state with lessening reliance on conventional energy sources and enhance ecological stability by stimulating research, development and demonstration of renewable energy sources." This goal, as stated, is hard to measure. Without specific objectives, there are no guidelines from which to work to meet the established goal.

A second goal, as stated in The Renewable Energy Program Plan, is ". . . to provide 15 percent of the state's energy needs from renewable sources by the year 2000." This goal might be measurable, but the staff does not have a system established with which to measure the progress toward the goal. Again, without a way to measure attainment, the goal is of little value.

Objectives are scattered throughout The Renewable Energy Program Plan. Some are reasonably specific, such as doubling solar energy use in Montana within the next two years. Others are more vague, such as providing public information on financial incentives. In either case, there is no system for measuring attainment.

Clear, concise goals and objectives would serve two purposes. First, they would give the staff a set of guidelines for program direction. Second, goals and objectives give the potential grant applicants an idea of program direction so they may adjust their proposals accordingly. In addition, a system should be established to measure the success of the program in attaining those goals and objectives. This would provide the department with information to review and revise program direction.

We discussed these concerns with department officials. They indicated the department is establishing goals and objectives and will begin measuring goal attainment.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION:

- A. ESTABLISH A CLEAR, CONCISE SET OF GOALS AND OBJECTIVES FOR THE PROGRAM.
- B. DEVISE A SYSTEM FOR MEASURING THE ATTAINMENT OF THOSE GOALS AND OBJECTIVES.

Project Analysis

As previously noted, there has been a general lack of measurement of the achievement of program goals and objectives. The administration of a program such as this should be an ongoing, dynamic process. This entails not only the distribution of funds and the monitoring of projects in progress, but also summarization and analysis of program information. By conducting evaluations of

projects in relation to those previously completed, as well as in relation to conventional methods of energy usage, standards of measurement can be established.

Currently, the department compiles "abstracts" of projects which have been awarded grants. These abstracts provide brief descriptions of the purposes, technology, and locations of each project. Upon project completion, the department composes and distributes a "Spotlight," which describes the completed project in greater detail, including an evaluation of the system performance and its expected operating costs. Other than these documents, there is no formal analysis and evaluation of projects completed by grantees. Furthermore, "Spotlight" evaluations have only been done for part of the projects completed.

Compilation and distributions of spotlight documents by the department provides a very specific source of information for evaluating individual projects in the short-term; however, the department should periodically prepare summary evaluations of renewable alternative energy sources by category (i.e. solar, wind, biomass, etc.). These evaluations should include an analysis of program success in each area of renewable energy development. Management would then be able to evaluate the program by assessing each area in relation to established goals and objectives and provide the public an analysis of projects most feasible for Montana.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION PERIODICALLY PREPARE SUMMARY EVALUATIONS OF PROJECT PERFORMANCE.

GRANT MONITORING

After a project proposal has been accepted by the department a formal "grant agreement" is signed by both parties. This agreement includes appendices which specify both general and specific provisions to be observed by the grantee in the course of project completion. Among these provisions are requirements concerning project time limits, budgeting, reporting, public access, record-keeping, and the disposition of project equipment.

These requirements and others were established to ensure compliance with the purposes of the grant program. We have indicated several monitoring areas where we believe the department can improve grant administration. These areas are:

1. Project Reporting.
2. Purchase Verification.
3. On-Site Visitation.
4. Over-Due Grants.

Project Reporting

During the completion of projects, grantees are required to submit to the department quarterly reports on their progress. In evaluating the extent of departmental monitoring, we selected a random sample of 32 grant files from fiscal years 1976-77 to 1979-80. In 13 instances (approximately 40 percent), we found either no quarterly reports; only one report; or late reports.

Inconsistent submittal of quarterly reports limits the ability of the program staff to assess project direction and compliance. Under such circumstances, the opportunity to implement corrective action to enhance the likelihood of project success is also limited.

Submittal of quarterly progress reports is a purposeful requirement of the formal grant agreement and, as such, it should be consistently enforced and used. In order to ensure compliance with this requirement, the department should establish a system of grant review which would include notifying grantees whose quarterly progress reports are overdue.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ENFORCE REQUIREMENTS FOR PROGRESS REPORTS.

Purchase Verification

In our examination of grant files all of the sample grant files we reviewed lacked complete documentation for grant reimbursement. Payments to grantees are made on the basis of "Grant Payment Requests." This request entails a list of project-related costs outlined by the grantee in the areas of salaries and benefits, operating expenses, equipment, and administration. Only "operating expenses" require a further breakdown of costs incurred (contracted services, supplies, communications, travel, and rent). In general, these have been summary statements for which no further verification has been required prior to reimbursement.

Our sample of files also showed that in 14 of 32 instances (44 percent), there was no verification of purchases included with the grantee requests for payment. In discussing the verification policy with program staff, we were informed that they were aware

of the potential problems involved in the disbursement of funds. In view of this, a policy has been implemented for all future grants which requires that invoices for items exceeding \$100 be included with any grant payment requests.

We were informed that the staff may waive this requirement for some projects. We believe that the department should review, establish, and consistently enforce a dollar limit for all projects.

RECOMMENDATION #10

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH AND CONSISTENTLY APPLY A POLICY OF VERIFYING INVOICES AGAINST GRANT PAYMENT REQUESTS.

On-Site Visitation

Many grants awarded involve the construction, operation, and analysis of various types of equipment and/or structures. In 15 of 33 projects sampled, no record of on-site visits was found. These 15 projects included several innovative technologies. In such cases, an important aspect of departmental control should be familiarization and evaluation through firsthand observation of the project. The program currently has no formal policy regarding such on-site visitation.

With project visitation, two major aspects of program administration can be addressed. First, the staff is able to familiarize itself with projects which incorporate new applications of technology. If valid analysis and direction is to be given to future

projects in similar areas, on-site visits could be of great assistance. Dissemination of project information to the public, which is an objective of the program, would also be improved.

Second, as a control tool, on-site observation can provide for accurate evaluation of potential structural or mechanical deficiencies which could limit project success. Many grantees lack special technical expertise which the program staff possess. Staff visits could identify problems which might not be apparent to the grantee. In such situations, corrective actions could be taken to minimize problems, or to avoid similar difficulties with other grant projects.

Program staff members indicated that on-site visits were desirable, yet, under current staff time constraints, regular visits to all projects are not feasible. Despite these problems, usefulness of on-site visits is significant. A formal policy requiring a systematic review to determine those projects which would benefit most from an on-site examination should be established.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH A FORMAL POLICY REQUIRING SYSTEMATIC REVIEW OF ON-SITE VISITS.

Over-Due Grants

Montana law (section 90-4-106, MCA) states that renewable alternative energy grants may not exceed one year. The general provisions of all grant agreements authorize grantees ". . . to conduct research, development, and/or demonstration work, . . . for a period not to exceed twelve (12) months . . ." In addition

to this, grantees are allowed three months in which to complete and submit a final report on their project. The twelve-month provision is not unreasonable since the department may limit project scope to that which can be reasonably accomplished in one year. If further work is necessary, the department could award another grant.

We found significant non-compliance with the law and contract terms in this area. The program staff provided figures which showed that of 120 grants which have been in force more than 15 months, presently, 15 grants have exceeded time limits with no final report being submitted. Final project reports are required in order to provide the data and overall analysis with which to evaluate the success of the project and its applicability to the state of Montana. Without them, the ability to make such evaluations may be significantly restricted. In turn, the benefit of the funds expended may be severely limited.

Total funding awarded to these 15 projects was approximately \$245,000, and of this amount, roughly \$45,000 has been withheld due to non-compliance. In these instances, totalling nearly 12 percent of all grants, the program has provided extensive funding without receiving the benefit of complete project information.

RECOMMENDATION #12

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ENFORCE THE GRANT PROVISION AND LAW REQUIRING COMPLETION WITHIN ONE YEAR.

TANGIBLE PROPERTY

In the department publication explaining the guidelines for submitting grant proposals, "equipment" is defined as items of a non-consumable nature; with an estimated life of more than one year; and which cost \$100 or more. Commercial solar collectors, rock storage tanks, wind generators, and heat pumps are cited as examples of equipment. This category may also include items such as cameras, tape recorders, and calculators, even though they may cost less than \$100.

Appendix E of the formal grant agreement requires a list of tangible items which are the property of DNRC. This includes, "Any and all equipment . . . purchased with grant money (substantiated by receipts)."

The general grant provisions of all formal agreements also include the following requirements regarding tangible property purchased in the course of completing a grant project.

"All tangible property listed in Appendix E purchased by Grantee under this grant is the property of the DEPARTMENT, and at the completion of the twelve (12) month agreement period such property shall be delivered to the DEPARTMENT. At the discretion of the DEPARTMENT, the Grantee may purchase such property from the DEPARTMENT at its market value."

Contrary to this, our review indicated that very little action has been taken by the department to either collect, or sell back to the grantee, tangible property which has been purchased.

According to officials of DNRC, the intent of the tangible property provision was that all equipment listed in "Appendix E" was to remain the property of the department. This includes

property which has been incorporated into the grantee's residence, property, or business. This may present problems when a property is sold, in that the buyer may not know that DNRC has a claim against the property. We noted one house which has a solar heating system funded through DNRC is for sale.

The tangible property provision of the contract makes the program one of loans rather than grants. The law does not state the program is for loans; therefore, the tangible property provision should be changed. DNRC should retain title to tangible property which is not necessary for the on-going operation of a project. For tangible property necessary to operate the project (i.e., a wind generator or a solar collector), DNRC should retain title to the property only until the terms of the contract are fulfilled.

RECOMMENDATION #13

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION REVISE THE TANGIBLE PROPERTY PROVISIONS OF THE GRANT CONTRACT.

CONTRACTED SERVICES

Our review of the program disclosed three problems relating to contracted services. One relates to contracting for an administrative assistant, another relates to the employment of an intern, while a third concerns recording project monitoring as grants rather than contracted services.

As noted earlier, one of the staff of the program is an administrative assistant who is under a personal services contract. Contract terms call for an annual salary of \$12,500 if an FTE position is not established for the job. Such contracts should only be used to acquire needed temporary expertise. They should not be used to satisfy permanent needs. Improper personal services contracts misrepresent agency expenditures because personal services expenditures are understated and operating costs are overstated. The department should discontinue using personal services contracts to fill permanent needs.

We also noted another area in which a misstatement of expenditures is occurring. On occasion, the program contracts with outside firms to monitor projects which have been completed using program funds. These contracts are recorded as grants on agency financial documents and have totalled \$85,000 since the program began. In another instance a university student was given a \$2,500 grant to write a report for the program. The person who wrote the report was actually a student intern rather than an independent grantee. In both cases, the contracts were for consulting and professional services which the agency felt it needed to administer the program. Therefore, the department should record these contracts under operating expenses rather than grants.

RECOMMENDATION #14

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION:

- A. DISCONTINUE THE USE OF PROFESSIONAL SERVICE CONTRACTS FOR PERMANENT POSITIONS.
- B. RECORD CONTRACTS FOR ADMINISTRATIVE SERVICES UNDER OPERATING EXPENSES RATHER THAN GRANTS.

CHAPTER IV

INSTITUTION BUILDING GRANT PROGRAM

In 1978, Congress passed a law providing funds for assisting institutions in conserving energy. Qualifying institutions include schools, hospitals, local government buildings, and public care institutions (nursing homes). The program is a combination federal/state effort with the Energy Division of the Department of Natural Resources and Conservation being the administrative agency in Montana. The Energy Division has responsibility for approving some grants, reviewing others, and monitoring those grants which it reviews or approves.

The program consists of four phases. First, each institution must conduct a preliminary energy audit at its own expense. This review simply requires a listing of building characteristics, such as size, window area, type of furnace, etc., and energy consumption from the previous year.

Once the first step is completed, the institution may conduct an energy audit. The audit consists of a review of the building by a person who has attended an energy audit workshop sponsored by the state. This review outlines low cost/no cost operational and maintenance procedures which can reduce energy consumption. Institutions performing such an audit may receive reimbursement from federal funds for 50 percent of the cost, providing they match the federal funds with their own money.

Once an institution has implemented all of the cost effective operational and maintenance procedures outlined in the energy audit, it may apply for a 50 percent matching grant to conduct a

technical assistance review. The technical assistance review is conducted by a professional engineer or engineer-architect team to determine what, if any, more costly measures can be taken to conserve energy (i.e. insulation, conversion to coal or renewable energy sources, etc.).

The final step in the process is the installation of the more costly energy conservation measures. Only schools and hospitals are eligible to participate in this phase of the program. An institution which chooses to participate in this step may receive 50 percent of the cost of installing energy conservation measures identified during the technical assistance review. While grants have been given, construction has not been completed on any of these projects to date.

FINANCIAL INFORMATION

In fiscal year 1980, the Energy Division spent approximately \$92,716 for administration of this program. Half of this amount was Resource Indemnity Trust Fund expenditures, while the other half came from federal sources. Approximately \$21,000 in federal funds have been spent for energy audits. In addition, applications for technical assistance and energy conservation measures totalling approximately \$1.1 million in federal funds have been approved. Illustration 11 shows a breakdown of these grants.

TECHNICAL ASSISTANCE AND
ENERGY CONSERVATION MEASURE GRANTS
FY 1979-80

<u>Type of Institution</u>	<u>Technical Assistance Fund Grants</u>	<u>Energy Conservation Measure Fund Grants</u>	<u>Total Funds</u>
Schools	\$109,666	\$457,588	\$567,254
Hospitals	58,825	78,736	137,561
Local Governments	725	N/A	725
Public Care	4,498	N/A	4,498
Total	\$173,714	\$536,324	\$710,038

N/A Not allowed to participate.

Source: Compiled by the Office of the Legislative Auditor.

Illustration 9

STATE ACTIVITY

The responsibility of the state lies in administering funds for energy audits, reviewing and recommending applications for technical assistance and energy conservation measures, and monitoring approved project grants. The state receives federal funds to carry out these responsibilities.

One of the primary administrative functions of the program staff is monitoring of the operational and maintenance procedures to be implemented after the energy audit is completed. The State Plan for the program describes three ways in which operational and maintenance procedures are to be monitored. One method is the submittal of written certification that procedures have been implemented. A second method is inspection of a sample of buildings. The third monitoring process is the comparison of the energy consumption of a building before the energy audit was

conducted with the consumption after the operational and maintenance procedures recommended in the energy audit have been implemented. We reviewed the monitoring system and found concerns in the following areas.

Submittal of Energy Consumption Sheets

The State Plan for the Institutional Building Grant Program states ". . . each participating building is required to submit reports of its fuel consumption by month for twelve months immediately following completion of its energy audit." Institutions are also required to submit fuel consumption by month for the twelve months prior to the energy audit. These figures are then compared to determine the effect of the operational and maintenance changes.

A sample of 20 institutions was drawn from the list of institutions having completed energy audits to determine if there were comparisons of energy consumption and if the operational and maintenance procedures reduced the amount of energy consumed. Eight of the twenty institutions had not sent post-audit energy consumption sheets to DNRC. The contract between the state and the institution provides that the institution cannot be reimbursed for the costs of an energy audit until after the audit has been completed. The eight institutions in the sample had been reimbursed by December 1979. Institutions are allowed to submit fuel consumption sheets whenever it is convenient. Some submit fuel consumption reports monthly, while others submit the sheet at the end of the twelve-month period. Without the energy consumption

sheets, the staff cannot make the necessary comparisons to determine if the operational and maintenance procedures have been implemented and whether they are reducing energy consumption.

RECOMMENDATION #15

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION REQUIRE THE INSTITUTIONS TO PROVIDE THE POST ENERGY AUDIT ENERGY CONSUMPTION SHEETS MONTHLY.

Flagging of Data

In the sample of agency consumption sheets which we examined, we found a large discrepancy between the pre and post audit energy consumption of one sample building. The contact person for the building said that before the energy audit two separate areas of the building were monitored with one meter. After the energy audit, a second meter was installed that monitors only the area of the building for which the grant applies. There is approximately an 80 percent difference in the amount of energy consumed before and after the energy audit. In another grant sampled, the energy consumption increased in the building. An addition to the building had been completed after the energy audit, explaining the increase in the use of energy. The program staff was not aware of these problems.

A computerized program compares pre and post energy audit energy consumption sheets the institutions submit to DNRC to determine if the operational and maintenance procedures have been

implemented. Energy consumption data is then summarized and printed for program use. Data submitted to the computer is given a brief examination. This review would not detect the problems which we noted unless the staff spent much more time on the review.

We were informed by the department that the computer program used to summarize the data has the capability to flag unusual data. However, we did not find that this capability was being used. If the capability were used, it would then be a simple matter for the program staff to identify unusual data and to investigate to determine the reason for the difference.

RECOMMENDATION #16

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION USE ITS COMPUTER PROGRAM CAPABILITY TO FLAG UNUSUAL READINGS.

Comparisons of Energy Consumption Sheets

We asked the program staff what the results of their energy consumption comparisons have been. They said that, to date, comparisons have not been made. The staff said they will assume that the operational and maintenance procedures have been implemented and retained if the comparison of energy consumption in a building decreases. Without the comparisons, the staff has little knowledge of the success of the program.

Since no comparisons have been done, the only verification the program staff have that the operational and maintenance procedures have been implemented is the certification the institution

must submit when applying for a technical assistance or energy conservation measure grant. Comparisons should be made to verify that the operational and maintenance procedures have been implemented and retained, and that the operational and maintenance procedures are actually reducing energy consumption.

RECOMMENDATION #17

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION COMPARE THE PRE AND POST ENERGY AUDIT ENERGY CONSUMPTION SHEETS.

CHAPTER V

RENEWABLE RESOURCES DEVELOPMENT GRANT PROGRAM

The 1975 Legislature established a grant and loan program within the Department of Natural Resources and Conservation (DNRC) to provide financial assistance to state agencies, local governments, and farms and ranches to develop renewable resources. The Legislature earmarked 1.88 percent (later, reduced to 1.25 percent) of the coal severance tax for grants to state agencies or to projects sponsored by state agencies. Direct financial assistance to local governments was to be through loans funded by the sale of bonds. Bond sales were to be based on income from the coal severance tax. However, due to the lawsuit over the tax, no bonds were sold. A 1977 Montana Supreme Court ruling declared the loan program an unconstitutional delegation of legislative authority and, in essence, eliminated the loan portion of the program.

Grants have been awarded in the 1977-79 and 1979-81 bienniums. The following illustration show the amounts granted and for what projects.

1977-79 RENEWABLE RESOURCES GRANTS

<u>Project</u>	<u>Amount</u>
Boulder River Reservoir	\$ 500,000
West Bench Irrigation Project	90,000
Solid Waste Management - Dept. of Health	300,000
Nevada Creek Dam Repair	50,000
Water Rights Study	60,000
Total	<u>\$1,000,000</u>

1979-81 RENEWABLE RESOURCES GRANTS

<u>Project</u>	<u>Amount</u>
Agriculture Experiment Station - Biological Weed Control	\$ 38,200
Fish and Game - Streambed Preservation	100,000
Cove Irrigation Company	40,000
Fish and Game - L and C Caverns Tramway	275,000*
Lawrence Park - Kalispell	327,680
Deer Lodge South Recreation Area	5,250
Triangle Conservation District - Saline Seep	241,000
Rangeland Resource Development Loans	300,000
Sacajawea Park Improvement - Livingston	114,700
Glen Lake Irrigation District	33,750
Lambeth Recreation Area	50,000
Lost Creek State Park	87,500
Forestry Division Maintenance - DNRC	46,200
Forestry Division Greenhouse - DNRC	200,000
Big Hole Offstream Water Storage - DNRC	86,500
Nevada Creek Irrigation Project	50,000
Total	<u>\$1,995,000</u>

*Less than \$20,000 used due to a court settlement.

Source: Compiled by the Office of the Legislative Auditor.

Illustration 10

PROGRAM ADMINISTRATION

The grant program involves the Legislature, the Governor, and DNRC. The Water Resources Division of DNRC reviews applications, makes recommendations for funding, and handles the day-to-day administration of the program. The Governor reviews the recommendations of the division and makes formal recommendations to the Legislature for funding. The Legislature makes the final decision concerning which projects to fund and for what amounts. The Legislature has, in the past, funded projects which are not considered by the Water Resources Division of DNRC. Some examples include:

--\$275,000 to fund the repair of the Lewis and Clark Caverns Tramway mandated by the Supreme Court.

--\$200,000 for a greenhouse for the Forestry Division of DNRC.

--\$46,000 for maintenance for the Forestry Division of DNRC.

The Water Resources Division devotes part of two positions to administration of the grants. In addition, other division staff members provide assistance in evaluating proposals and for clerical services.

This program is only peripherally related to energy. The primary focus has been water development, with recreation, range, and timber as lesser aspects. The relationship to energy comes from two sources. First, energy production or conservation has been a secondary benefit of some grants, such as solid waste management and gravity flow rather than pump fed sprinklers for irrigation. Also, the law authorizing the program is so broadly written that energy development projects could be funded, although none have been to date.

Our review revealed five areas of concern related to the program.

Monitoring and Follow-up

Current DNRC monitoring of projects is limited to planning and construction plans of the program and does not extend beyond project completion. During our review, we noted that DNRC staff members perform limited analysis and evaluation of projects using application screening, on-site inspection, and quarterly and annual report review.

To evaluate the monitoring efforts, we selected a sample of grants, reviewed the appropriate files, and interviewed the program staff and the grantees. Our review indicates that the monitoring efforts are inconsistent. Grant files show that some projects are visited and submit progress reports, while others submit only an occasional report, and still others have virtually nothing in the files. Evidence in the program files and discussions with grantees indicate that few on-site inspections are performed. In fact, department personnel indicated that there is no policy on progress reports or on-site visits, only that the contract requires a final report.

This lack of monitoring is not conducive to adequate oversight and does not provide for good program continuity. Therefore, DNRC needs to implement a system of periodic monitoring during construction. Such a system should include quarterly progress reports and a systematic approach to on-site visits.

RECOMMENDATION #18

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION IMPLEMENT A SYSTEM OF PERIODIC MONITORING DURING CONSTRUCTION AND OF FOLLOW-UP REVIEWS OF COMPLETED PROJECTS.

Program Emphasis

Our review of the law authorizing the grants revealed that the statute is written so broadly that almost any project would qualify. The applicable statutory language allows grants for:

" . . .the purchase, lease, or construction of projects for conservation, management, utilization, development, or preservation of the land, water, fish, wildlife, recreational, and other renewable resources in the state; for the purpose of feasibility and design studies for such projects; for development of plans for rehabilitation, expansion, or modification of existing projects; and for such other and further similar purposes as the legislature may approve."

During our review, we noted that the majority of projects were water-related. Most projects were concerned with funding for sprinkler systems, irrigation canals, stream preservation, and other water projects. We spoke with the staff about this and they acknowledged that the program had funded more water-related projects than any other area and that they are making an effort to achieve a better balance of renewable resources projects. Three factors have influenced a greater emphasis of water related projects: a vague statute creating the program, staff expertise on water projects, and a feeling by potential applicants that administration by the Water Resources Division limits projects to one area.

DNRC needs to develop a more balanced approach to the program by emphasizing to potential applicants that all approved project areas will receive a fair evaluation. To accomplish this, a system of priorities for each accepted type of project may have to be established. If sufficient applications are not received the department may have to actively seek out grant applications for specific types of projects.

RECOMMENDATION #19

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ASSURE THAT ALL ACCEPTED TYPES OF PROJECTS HAVE EQUAL ACCESS TO GRANT FUNDS.

Goals and Objectives

DNRC's Renewable Resource Development Program is currently operating without any specific goals or objectives. The staff has only generalized department goals and objectives to evaluate the program's performance. Although the staff have developed certain guidelines to administer the program, they do not constitute definite program objectives and give no specific direction to the program. The staff should enumerate the program's goals by including such information as: the number of projects to start and complete by certain dates; estimates on the number of projects operating in specific areas (wildlife, water, forestry, etc.) to achieve a balanced program; and projected staff requirements.

Without short-range or long-range goals it is impossible to determine the efficiency with which the program is being run and its effectiveness in meeting Montana's future needs for renewable resources. Specific goals and objectives should be established for the program.

RECOMMENDATION #20

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH SPECIFIC GOALS AND OBJECTIVES FOR THE RENEWABLE RESOURCE PROGRAM.

Administrative Rules

DNRC's Water Resources Division has not established rules to administer the program. The program relies entirely on the division's chief administrator for guidance and to provide program structure. Since program administrators do not have to conform to prescribed limits or procedures set down in the rules, it is difficult to determine if administrative decisions have been made in a reasonable manner and in the best interests of the program and the state.

Within the program, there must be rules which define procedures and provide a proper framework on which to evaluate program performance. Administrative rules would codify the evaluation criteria, application format, and monitoring and follow-up procedures. Rules should specifically state that projects which focus primarily on energy will not be considered, as is the present unwritten rule.

RECOMMENDATION #21

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION DEVELOP ADMINISTRATIVE RULES TO ENSURE PROPER ADMINISTRATION OF THE PROGRAM.

CHAPTER VI

SOLID WASTE MANAGEMENT PLANNING GRANT PROGRAM

The 1977 Legislature passed a law creating a solid waste management program within the Department of Health and Environmental Sciences (HES). The program has two purposes: to provide funds to local governments to plan how to dispose of solid waste, and to make loans to local governments to implement the plans. The planning grant program is underway, but the loan program has not materialized. The loan money was to have come from the sale of bonds backed by coal severance tax revenues, but a 1980 lawsuit over the tax has thwarted the sale of the bonds to date.

The 1977 Legislature appropriated \$300,000 to fund the solid waste management planning grants. Funding for the planning grants came from the Renewable Resource Development Grant Program administered by the Department of Natural Resources and Conservation. From the start of the program through October 1980, 15 grants, involving 25 local governments, have been awarded, totaling \$296,776.40. Following is a breakdown of the program appropriation, number of grant awards, and total dollar amounts by fiscal year.

SOLID WASTE MANAGEMENT PLANNING GRANTS
FY 1977-78 - October 1980

<u>Fiscal Year</u>	<u>Number of Grants</u>	<u>Dollar Amount of Grants</u>
1977-78	5	\$134,739.40
1978-79	7	101,037.00
1979-80	1	41,000.00
July-October 1980	<u>2</u>	<u>20,000.00</u>
	15	\$296,776.40

Source: Compiled by the Office of the Legislative Auditor.

Illustration 11

PROGRAM ADMINISTRATION

All grants to date under the program have been for planning. HES has applied for additional funding from the Renewable Resources Development Grant Program to continue issuing planning grants and to begin giving grants to implement the plans.

The Solid Waste Management Grant Program is administered by the Solid Waste Management Bureau. The bureau also administers the junk vehicle program and the state's efforts to assure compliance with federal and state solid waste disposal regulations. The program utilizes part of the time of seven HES employees. Time involved amounts to approximately one FTE.

Solid waste management planning grants involve a two-level process. HES grants money to a local government or a group of local governments. A local government(s) in turn contracts with a consulting firm to do the actual planning. Throughout the planning process, HES serves as technical assistant to the local government(s) and monitors the progress of the plan. In addition, HES must accept the final planning document before the grant terms are fulfilled.

Files show that the solid waste grants are being audited by HES. When the HES auditor goes to the counties once a year to audit the junk vehicle accounts, solid waste program grants are also reviewed. Seven of the grants have been audited and there were no significant problems with the grants according to the HES auditor.

Both waste recovery and recycling projects have been recommended in the completed studies. One grantee has implemented the waste recovery system suggested by the consultants. The system consists of large containers into which area residents deposit their garbage. The containers are then periodically hauled to one central landfill. This system cuts down on the number of landfills in the region and ensures there is enough bulk garbage to recycle when a recycling system in the area is feasible. Another project in the process of being implemented consists of an incinerator that burns the garbage to produce steam. Bids have been accepted for the equipment and a company has contracted for the steam. These implementation efforts have been made without funds from the program.

While this grant program is one of the better administered that we examined, our review revealed two areas where improvement could be made.

Return of Unused Funds

In letters asking for fiscal year-end financial reports, the grantees are reminded that any unexpended funds are to be returned to the department. One file indicated that the grantee owed the department \$3,920.13.

The contract between the department and the committee does not state that unexpended funds must be returned. At their first meeting, the staff members tell the local governments that the unused money must be returned, and some of the committees state they will return the unexpended funds when they apply for the grant, but that is the only communication of the requirement other than the above-mentioned letter. The contract should state that the unexpended funds must be returned to the department.

RECOMMENDATION #22

WE RECOMMEND THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES REVISE ITS CONTRACT TO SPECIFY THAT UNUSED MONEY BE RETURNED.

Documentation of Contract Extension

A comparison of the dates of the contracts between the department and the grantees, and the dates of the final reports, revealed that the final reports were being submitted up to a year after the contract had ended. In some cases extensions were documented, but in most cases they were not.

We determined that many of the grants examined were the first ones awarded and none of the participants knew how long the entire process would take. Administrative delays have caused many of the contracts to run past the original deadlines.

Few extensions were documented because the program staff believed the paperwork was time consuming and unnecessary. However, documentation of contract extensions would protect all

the parties to the contract in the case of legal action. The department should, therefore, document contract extensions.

RECOMMENDATION #23

WE RECOMMEND THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES DOCUMENT CONTRACT EXTENSIONS.

CHAPTER VII

FOOD AND FUELS GRANT PROGRAM

In 1979, the Legislature enacted an amendment to the wheat research and marketing law. The amendment called for an increase in the maximum assessment levied on wheat and barley grown in Montana and sold through commercial channels during fiscal years 1979-80 through 1982-83. It further directed that \$200,000 of the assessments in each of these fiscal years be provided to the Department of Agriculture for the purpose of contracting ". . . with both private and government organizations to provide for research, development, production, and marketing of fuels and foods derived from wheat and barley."

To comply with the 1979 legislation, the Department of Agriculture established a "Food and Fuels Program" in July 1979. This program concerns energy, since the primary focus of the grants has been the production of ethanol for fuel. Of the grants awarded, all but three are directly related to ethanol production. Two are for commercial development of a barley syrup, which is better suited to ethanol production, while the third was for Montana's membership in the National Gasohol Commission.

During the first year of operation (FY 79-80), the program funded six projects at a total cost of \$199,308 (this figure includes administrative costs). Fiscal year 1980-81 expenditures thus far have been \$59,229. The following illustration indicates grants awarded by fiscal year.

FOOD AND FUELS PROGRAM
GRANTS AWARDED
(FY's 1979-80 through 1980-81)

<u>Fiscal</u> <u>Year</u>	<u>Project</u>	<u>Amount</u>
1980-81	Barley Research	\$35,000
1980-81	Commercial Ethanol Plant	5,000
1980-81	Commercial Ethanol Plant	7,500
1980-81	Feasibility Study (Ethanol Plant)	5,000
1980-81	Commercial Ethanol Plant	35,000
1980-81	Feasibility Study (Ethanol Plant)	5,000
1980-81	Small Scale Ethanol Facility	1,500
1980-81	Small Scale Ethanol Facility	15,000
1979-80	Commercial Ethanol Plant	100,000
1979-80	Barley Research	77,723
1979-80	Small Scale Ethanol Facility	10,000
1979-80	Feasibility Study (Ethanol Plant)	5,000
1979-80	Small Scale Ethanol Facility	2,500
1979-80	Educational	<u>2,500</u>
	Total FY 80-81	\$109,000
	Total FY 79-80	\$197,723

Source: Compiled by the Office of the Legislative Auditor.

Illustration 12

Of the projects funded to date, our review of files and discussions with a sample of grantees indicate that the feasibility studies have been completed, but actual construction has been very limited.

In December of 1980, an agreement was signed between the directors of the Department of Agriculture and the Department of Natural Resources and Conservation to have the Energy Division of DNRC administer the Food and Fuels Program. Previous to this date, the manager of the Hail Insurance Unit of the Department of Agriculture was responsible for the program.

Under the agreement, the Food and Fuels Advisory Council, formed to assist Agriculture in awarding grants, will be merged with the Gasohol and Biofuels Advisory Council of DNRC. DNRC will receive 5 percent of grant funds for program administration. The director of the Department of Agriculture maintains the authority over final approval of grants awarded under the program.

Objectives of the program, as delineated in its "Statement of Administrative Policies," include the following:

- "It is the intention of the Department to conduct the funding program in such a manner as to obtain the maximum amount of research and development possible for the moneys expended. . ."
- "It is the objective of the Department to give funding preference to development and demonstration projects."
- "Generally, only applications which are directly related to research or construction of fuel or food facilities will be funded."

PROGRAM ADMINISTRATION

Administrative rules of the Food and Fuels Program provide guidelines for program administration. The rules include provisions relating to payment requirements, monitoring, and award criteria. Our review of the Food and Fuels Program revealed three areas of concern. These concerns related to:

1. Grant Payments.
2. Award Criteria.
3. Monitoring.

Developed concerns arose while the program was administered through the Department of Agriculture.

Grant Payments

Administrative rules of the program specify that payments are to be made monthly or quarterly against the balance of the grant and that payments will only be made on valid project related expenditures. Our review indicates that these provisions are not being carried out and that control over funds was weak.

We found that in seven of the nine grants examined the total grant amount was given to the grantee in one or two payments. These payments were often made near the beginning of the grant period. In one case, a grantee received \$35,000 and the project has been delayed until additional financing can be obtained. In addition, we noted that there is often no breakdown of reimbursable expenditures.

With most or all of the money being given the grantee early in the grant period, administrators have little leverage to assure compliance with grant terms. The lack of itemized reimbursement requests denies the program assurance that reimbursed expenditures are project related.

To provide better control over the grant money, grant administrators should require a breakdown of expenditures before grant funds are released. In addition, a percentage of the grant money should be retained until the project is completed.

RECOMMENDATION #24

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION:

- A. REQUIRE A BREAKDOWN OF EXPENDITURES ON REIMBURSEMENT REQUESTS BEFORE RELEASING GRANT FUNDS.
- B. RETAIN A PERCENTAGE OF THE GRANT AMOUNT UNTIL PROJECT COMPLETION.

Award Criteria

While the administrative rules provide general guidelines, no specific criteria were developed by the former program manager or the advisory committee to evaluate proposals. In our discussions with the program manager, he stated that while geographic dispersion may be a factor in award decisions, the major factor was simply that food or fuel be produced from wheat or barley. He further stated that although proposals are held for review at one time, those which are submitted earlier are probably viewed more favorably.

Despite similar technologies, the duplication of efforts among project proposals is not a consideration in the award criteria. As indicated by the program manager, the production of food or fuel is the primary concern, regardless of duplication of efforts. The lack of clear award criteria may not be conducive to maximizing ". . . the amount of research and development possible for the moneys expended. . ." Widespread duplication of similar technologies among projects is an example of this.

A similar program in the Department of Natural Resources and Conservation has an evaluation form with criteria listed which is used in deciding which proposals to fund. We believe that a

similar form should be devised to provide guidance to project evaluators.

RECOMMENDATION #25

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH SPECIFIC EVALUATION CRITERIA.

Monitoring

Administrative rules of the program, and the grant contract itself, specify the requirements for grant proposals and project completion. However, discussions with the former program manager and an examination of the grant files indicated that very little formal enforcement of certain grant terms is taking place.

For example, the manager explained that there has not been an emphasis placed on the submittal of written progress reports. Contract terms call for submittal of "two copies of quarterly reports which describe actual project progress. . ." Our interviews with the program manager also indicated that "on-site" project visits have been conducted infrequently and have not been documented.

Grant files we examined contained varying amounts of project information. In two cases, no formal proposal was included.

In general, grant monitoring and administration could be improved. The program should establish a monitoring system which includes progress reports and conducting on-site visits.

RECOMMENDATION #26

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH A MONITORING SYSTEM, INCLUDING PROGRESS REPORTS AND ON-SITE VISITS.

CONCLUSION

The program manager recognized the problems involved in the awarding and monitoring of grants. He attributed the problems to a lack of adequate staff time and technical expertise in these areas. For these reasons, it was his opinion that the program should be transferred to the Department of Natural Resources and Conservation for awarding and monitoring food and fuels grants. The agreement, signed in December of 1980, accomplishes the transfer of the program.

AGENCY REPOSE

DEPARTMENT OF COMMUNITY AFFAIRS



TED SCHWINDEN, GOVERNOR

CAPITOL STATION

STATE OF MONTANA

(406) 449-3494

March 10, 1981

HELENA, MONTANA 59620

James H. Gillett
Acting Legislative Auditor
State Capitol
Helena, MT 59601

RECEIVED

MAR 10 1981

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Gillett:

As the audit report points out, approximately 9,000 homes have been completed by the ten local agencies under contract with DCA for delivery of the weatherization program. Last years fuel bill assistance program served approximately 16,000 needy households in Montana.

Under the weatherization program the Community Services Division monitors between 400 and 600 homes each fiscal year and visits each local agency once every quarter. In addition, DCA is under federal mandate to monitor ten percent of all households receiving fuel bill assistance.

Weatherization

Recommendation # 1.A and # 1.13

At the present time, DCA does require a consistent and standardized documentation system. All documents which are necessary in order to track a home from the point of application through completion are identified in the State's yearly Grant Application. These requirements are then translated into a contractual obligation on the part of the local agency. Contractual compliance is then monitored on a quarterly basis by DCA staff. The first step in monitoring the Weatherization program is a review of documentation in individual client files. Are the required documents in each file? Are they properly filled out? All deficiencies are noted in writing and a copy of the state's findings are given to the local agency director and the program operator. Each local agency is then required to respond in writing to this report and is required to detail what corrective action the agency will take in regards to the noted deficiencies.

Finally, DCA is also developing a manual for program operators. This manual will specify all required program documents and will provide information on how each document is to be properly completed.

Recommendation # 2

While DOE regulations make no provision for quality control, it has always been the position of DCA that unless the program provided stress

quality of workmanship the end product (conservation of domestic energy) will be negligible. The second phase of the agency monitoring (referred to above) is an on-site review at the home of the client. This phase of the monitoring process is the most time consuming and has the following objectives. First, it is a means of assuring that what materials were charged to that client have actually been installed. Second, it is a mechanism for DCA to assess the quality of workmanship. This second factor is of primary importance because no matter how well the Regulations are understood or how complete the documentation, if the work is not well done it affects the amount of savings a client receives. I also believe, that if the job is well done by the agency it helps to instill an incentive for the client to maintain the materials.

Quality control will continue to be of primary importance in DCA's enforcement policy.

Recommendation #3

Because DCA is committed to delivery of a quality product to each eligible client, "quality" will be quantified in a manual of operations. Once these standards are established and agency personnel have been trained as to what constitutes quality application of weatherization materials, DCA will modify the weatherization contract to specify that no agency will receive additional funds if they are not meeting these standards regardless of the number of homes being completed. Conversely, DCA will not allow any local agency to carry over funds when they are doing quality work but not meeting mutually agreed upon production schedules. Particularly when those funds could be expended in behalf of eligible clients elsewhere in the state.

Recommendation #4

DCA has gone on record with DOE requesting that client education be made an eligible activity for DOE training and technical assistance funds. Client education was at one time an allowable activity, it is not an allowable activity under current DOE regulations.

When this was an allowable weatherization activity each local agency had educational packets, relating to conservation, which were given to each applicant.

Recommendation #5

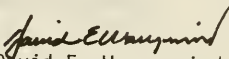
The only means of measuring the success of the overall program and the effectiveness of particular techniques is through a measure of energy savings realized by the client. DCA has placed a consumption release statement on each weatherization and fuel bill assistance application. However, to gather, collect and assess this information in relation to weatherization measures applied, housing type, house orientation, fuel type etc., will require considerable staff time and money. At the present time, neither of these ingredients are available. However, as an alternative to an indepth survey, DCA will be working with the Low Income Senior Citizen's Association to make use of volunteers to gather some basic savings information.

Gillett
3/10/81
Page 3

Recommendation #6

DCA will continue to communicate to local agencies which activities are allowable under current regulations and which activities are not allowable.

Sincerely,


David E. Wanzonried
Acting Director

DEPARTMENT OF NATURAL RESOURCES
AND CONSERVATION
CENTRALIZED SERVICES DIVISION



TED SCHWINDEN, GOVERNOR

32 SOUTH EWING

STATE OF MONTANA

(406) 449-3647

HELENA, MONTANA 59620

March 11, 1981

RECEIVED

MAR 12 1981

MONTANA LEGISLATIVE AUDITOR

James Gillett
Acting Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620

Dear Jim:

In accordance with your instructions by letter dated March 4, 1981, I hereby submit this letter and comments on the performance audit entitled "Selected Energy Grant Programs" for fiscal years 1979 and 1980, as it applies to the Department of Natural Resources and Conservation.

I would like to thank you and your staff for the consideration our comments were given during discussion of this report and for the courteous and professional manner in which the audit was conducted.

Sincerely,


Leo Berry, Jr.
Director

COMMENTS ON THE LEGISLATIVE AUDIT
COMMITTEE'S FINDINGS AND RECOMMENDATIONS

Following are the responses of the Department of Natural Resources and Conservation to findings and recommendations presented in the Performance Audit Report entitled "Selected Energy Grant Programs" for fiscal years 1979 and 1980.

RECOMMENDATION NUMBER 7

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION:

- A. ESTABLISH A CLEAR, CONCISE SET OF GOALS AND OBJECTIVES FOR THE PROGRAM.
- B. DEVISE A SYSTEM FOR MEASURING THE ATTAINMENT OF THOSE GOALS AND OBJECTIVES.

RESPONSE

Concur. The Department will establish relevant goals and objectives for the program, and devise measurement criteria for evaluation of attainment.

RECOMMENDATION NUMBER 8

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION PERIODICALLY PREPARE SUMMARY EVALUATIONS OF PROJECT PERFORMANCE.

RESPONSE

Concur. The Department will establish a schedule of summary evaluations by project category, within staff constraints.

RECOMMENDATION NUMBER 9

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ENFORCE REQUIREMENTS FOR PROGRESS REPORTS.

RESPONSE

Concur. An automated control system has been designed to provide for management information, including overdue reports. Enforcement of requirement for progress reports has been implemented.

RECOMMENDATION NUMBER 10

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH AND CONSISTENTLY APPLY A POLICY OF VERIFYING INVOICES AGAINST GRANT PAYMENT REQUESTS.

RESPONSE

Concur. The Department has established a level of \$100 per item, with requirement that receipts be transmitted with the request for payment.

RECOMMENDATION NUMBER 11

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH A FORMAL POLICY REQUIRING SYSTEMATIC REVIEW OF ON-SITE VISITS.

RESPONSE

Concur. A systematic review of grants for the purpose of identifying those projects which require periodic on-site visitations will be established.

RECOMMENDATION NUMBER 12

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ENFORCE THE GRANT PROVISION AND LAW REQUIRING COMPLETION WITHIN ONE YEAR.

RESPONSE

Concur. Future awards will be monitored for compliance within one year of award. A phased system will be applied to large, multi-year projects.

Comment: Of the fifteen grants noted by the auditors, six are scheduled for completion in the near future, and four have been referred to the Department's legal staff for resolution.

RECOMMENDATION NUMBER 13

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION REVISE THE TANGIBLE PROPERTY PROVISIONS OF THE GRANT CONTRACT.

RESPONSE

Concur. The contract tangible property provisions will be revised to meet the intent of the recommendation.

RECOMMENDATION NUMBER 14

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION:

- A. DISCONTINUE THE USE OF PROFESSIONAL SERVICE CONTRACTS FOR PERMANENT POSITIONS.
- B. RECORD CONTRACTS FOR ADMINISTRATIVE SERVICES UNDER OPERATING EXPENSES RATHER THAN GRANTS.

RESPONSE

A. Concur. The contract monitor position has been requested for permanent funding for fiscal 82-83. The position is necessary for financial control and for implementing recommendations 9 and 10, and assistance in implementing recommendations 8 and 12.

B. Concur.

RECOMMENDATION NUMBER 15

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION REQUIRE THE INSTITUTIONS TO PROVIDE THE POST ENERGY AUDIT ENERGY CONSUMPTION SHEETS MONTHLY.

RESPONSE

Concur.

RECOMMENDATION NUMBER 16

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
USE ITS COMPUTER PROGRAM CAPABILITY TO FLAG UNUSUAL READINGS.

RESPONSE

Concur.

RECOMMENDATION NUMBER 17

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
COMPARE THE PRE- AND POST-ENERGY AUDIT ENERGY CONSUMPTION SHEETS.

RESPONSE

Concur. The Department is implementing a monitoring system.

RECOMMENDATION NUMBER 18

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
IMPLEMENT A SYSTEM OF PERIODIC MONITORING DURING CONSTRUCTION AND
OF FOLLOWUP REVIEWS OF COMPLETED PROJECTS.

RESPONSE

Concur. The Department agrees with the recommended implementation of a monitoring and the followup review system. The Department's own internal review suggests supplementing the present results-oriented reporting with a system to evaluate the success and effectiveness of each project which has been funded by the program. This would include field monitoring and investigation. These results would be used to assess the overall direction of the program and to suggest ways in which the program could accomplish renewable resource development more effectively. Also, a review and analysis of all projects funded would be made available in published form.

RECOMMENDATION NUMBER 19

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ASSURE THAT ALL ACCEPTED TYPES OF PROJECTS HAVE EQUAL ACCESS TO GRANT FUNDS.

RESPONSE

Concur. The Department agrees with the recommendation that all accepted types of projects have equal access to grant funds. The Department recommends development of a program plan which would include a needs assessment and program targeting to determine where this money should be spent to assure maximum development of renewable resources. All of the areas which could be funded would be considered and evaluated for their contribution to the effective development of renewable resources, need for funds, benefit to the state's economy, applicability to statewide problems and others. Once these areas where the Renewable Resource Development program can be of most benefit have been identified, proposals for projects in these areas would be solicited. At that time guidelines would establish the percentage distribution of these funds to specific resources. This procedure would allow the Department to direct the program rather than to be recipient of random applications. Further, the Department would increase publicity for the program in an effort to give all prospective applicants a fair chance at receiving these funds and therefore to maximize the quality of the program.

RECOMMENDATION NUMBER 20

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH SPECIFIC GOALS AND OBJECTIVES FOR THE RENEWABLE RESOURCE PROGRAM.

RESPONSE

Concur. The Department agrees with the suggested establishment of goals and objectives. In addition, the Department will develop a program plan which will include the following:

- 1) needs assessment and targeting;
- 2) definition of goals and objectives (which would come largely from the needs assessment and targeting);
- 3) assessment of staffing needs and workloads;
- 4) required administrative expenditures;
- 5) interagency coordination;
- 6) publications and reports;
- 7) on-the-ground monitoring and project evaluations;
- 8) solicitation of proposals;
- 9) guidelines;
- 10) criteria;
- 11) rating system(s); and
- 12) program evaluation.

Once the goals and objectives were established, they would be used to direct the program.

RECOMMENDATION NUMBER 21

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION DEVELOP ADMINISTRATIVE RULES TO ENSURE PROPER ADMINISTRATION OF THE PROGRAM.

RESPONSE

Concur. The Department agrees with the suggestion that administrative rules be adopted. Once the program plan discussed earlier is established, many of the elements in this plan will be

adopted by rules. As suggested in the audit, these would include evaluation criteria, application format, and monitoring and followup criteria. They would also include, for example, a definition of terms used in the law such as project and development, a guideline to earmark some of the funds to loans instead of grants, and to refer all projects which deal primarily with renewable energy to the Renewable Alternative Energy Program.

RECOMMENDATION NUMBER 24

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION:

- A. REQUIRE A BREAKDOWN OF EXPENDITURES ON REIMBURSEMENT REQUESTS BEFORE RELEASING GRANT FUNDS.
- B. RETAIN A PERCENTAGE OF THE GRANT AMOUNT UNTIL PROJECT COMPLETION.

RESPONSE

A. Concur. The Department will implement the recommendation in consonance with recommendation 10 and existing Alternative Energy Program financial criteria.

B. Concur. The Department will implement the recommendation in consonance with existing Alternative Energy Program financial criteria.

RECOMMENDATION NUMBER 25.

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION ESTABLISH SPECIFIC EVALUATION CRITERIA.

RESPONSE

Concur. The Department will develop evaluation criteria similar to the present Alternative Energy Project evaluation criteria.

RECOMMENDATION NUMBER 26

WE RECOMMEND THE DEPARTMENT OF NATURAL RESOURCES AND CONSERVATION
ESTABLISH A MONITORING SYSTEM, INCLUDING PROGRESS REPORTS AND
ON-SITE VISITS.

RESPONSE

Concur. The Department will implement the recommendation
concurrently with recommendation 11.

DEPARTMENT OF HEALTH AND
ENVIRONMENTAL SCIENCES

DIRECTOR'S OFFICE



TED SCHWINDEN, GOVERNOR

COGSWELL BUILDING

STATE OF MONTANA

(406) 449-2544

HELENA, MONTANA 59620

RECEIVED

MAR 11 1981

MONTANA LEGISLATIVE AUDITOR

March 10, 1981

James H. Gillett
Office of the Legislative Auditor
State Capitol
Helena, Montana 59620

Dear James:

As requested I am sending the Department's response to the Legislative report on the audit of Selected Energy Grant Programs. We have addressed each recommendation and indicated our position on them.

Sincerely,

A handwritten signature in cursive script, reading "John J. Drynan, M.D.", written in dark ink.

John J. Drynan
Director

Enc.

RESPONSE TO LEGISLATIVE PERFORMANCE AUDIT

SELECTED ENERGY GRANT PROGRAMS

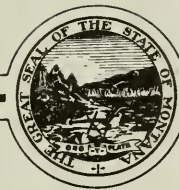
Recommendation #22

We concur with the recommendation that the department revise its contracts with local governments to specify that unused money be returned. Modifications have been made in current department grant procedures whereby local governments must agree in writing that any unexpended monies for a project must be returned to the department.

Recommendation #23

We also agree with the recommendation that the department document all contract extensions. Modifications have been made with contract procedures to assure that department staff more closely monitor closing dates for contracts and to document in writing all contract extensions. In addition, procedures to make contract extensions have been modified in the legal division of the department. These modified procedures assure that contract extensions will be made in a timely manner and will minimize unnecessary paperwork.

DEPARTMENT OF AGRICULTURE
DIRECTOR'S OFFICE



TED SCHWINDEN, GOVERNOR

AGRICULTURE/LIVESTOCK BUILDING
CAPITOL STATION

STATE OF MONTANA

(406) 449-3144

HELENA, MONTANA 59620

March 13, 1981

RECEIVED

MAY 13 1981

Mr. James H. Gillett
Acting Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Gillett:

The Montana Department of Agriculture submits the following response to the audit performed by your office.

Page 63- Grant Payments

RECOMMENDATION #24:

- A. "Require a breakdown of expenditures on reimbursement requests before releasing grant funds."
- B. "Retain a percentage of the grant amount until project completion."

RESPONSE:

- A. We concur except for proposals requiring front end funding such as feasibility studies.
- B. We concur with the same exceptions as A.

Page 64 - Award Criteria

RECOMMENDATION #25:

"We recommend the Department of Natural Resources and Conservation establish specific evaluation criteria."

RESPONSE:

We concur noting that proposals vary therefore several different criteria will be necessary for an effective evaluation.

Note also that with development grants duplication of effort is not a factor.

Mr. James H. Gillett
Page 2
March 13, 1981

Page 66 - Monitoring

RECOMMENDATION #26:

"We recommend the Department of Natural Resources and Conservation establish a monitoring system, including progress reports and on-site visits."

RESPONSE:

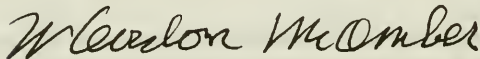
We agree, however by the nature of the grants, on-site visits are unnecessary if projects are delayed due to the lack of adequate financing.

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NOTE: Fiscal Year 1980-81 expenditures thus far have been \$59,229 does not agree with page 61 which is correct at \$109,000.

Please contact the Department if we can be of further assistance.

Sincerely,



W. Gordon McOmber
Director

WGM/dm

